

The New York Certified Public Accountant

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THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT

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EDITORIAL

WITH the advent of peace, the New York State Society of Certified Public Accountants is devoting attention to its own "reconversion" problems. It is embarking upon an ambitious program of activities which were either omitted entirely or greatly restricted during the war years. The accelerated program of committee and other activities is being currently reported in the Monthly Bulletin. In line with this general program, plans are under way for the enlargement, modernization and improvement of the New York Certified Public Accountant.

We begin our task with a thoroughgoing revitalization of the "Professional Comment" section of the magazine. Our aim will be to present a stimulating digest and discussion of matters confronting the public accountant, as evidenced by current accounting literature, court decisions, research bulletins, legislation, government departmental releases and talks before professional organizations. The Editorial Board intends in the very near future to inaugurate two new sections, namely, editorials and book reviews.

The New York Certified Public Accountant is a useful, informative pro-

fessional magazine. We feel that the magazine can be of greater usefulness to the members of the Society, and in order to accomplish our goal we invite your full cooperation. The pages of our magazine are open to all of our members for their appropriate contributions to assist in solving the many complex and diversified problems facing the profession. We especially invite articles from the younger members of the profession.

Mr. Wentworth F. Gantt is retiring as managing editor of the magazine. Mr. Gantt, our hard working executive secretary, carried a weighty burden and achieved remarkable success during the war years despite all the attendant manpower shortages and other difficulties. We express our sincere thanks to Mr. Gantt for his untiring efforts as managing editor.

Dr. Emanuel Saxe, as the newly appointed Director of Technical Services and Research, has taken over the duties of managing editor. The new managing editor will, of course, receive the fullest cooperation from the Editorial Board.

The Editorial Board

BENJAMIN NEUWIRTH, *Chairman*

The Accountant's Tax Library and Its Use

By MARK MARCOSSON, C.P.A.

THE impact of taxes has progressed to the point where many clients today consider tax representation to be the most vital service rendered by their accountants. The accounting profession generally has successfully met this demand for greatly increased service, though for many the difficulty of this task has been increased by lack of sound knowledge of the basic literature of the field of taxation. A considerable number have tried to keep abreast of tax developments through the use of lecture and discussion courses. While most of these courses are excellent in their tax instruction, they do not usually equip their customers to answer questions which arise when changes in the law take place or new situations must be studied under actual practice conditions.

Most accountants know that there are two principal tax services published and in general use by most of the profession. These are the Prentice-Hall Federal Tax Service and the Commerce Clearing House Federal Tax Service. They frequently ask which is "better". This question would be asked less often if the average accountant understood what goes into these services, where it comes from and how it is arranged. The purpose of this article is to give the working accountant a quick survey of the literature of Federal income taxation, with particu-

lar reference to the tax services and their use.

It should be understood that the bulk of both services consists of verbatim reprints of the statute law as embodied in the Internal Revenue Code, the various revenue acts, the regulations of the Commissioner of Internal Revenue, rulings and opinions of the Treasury Department, reports by the House Ways and Means Committee and the Senate Finance Committee, and court decisions.

In addition, both services contain a considerable amount of editorial matter consisting of summaries and discussions of the various phases of the law, check lists, tables of tax rates and other matters and also, of great importance, each contains a large index, that in the Prentice-Hall service, for example, exclusive of supplementary indices, consisting of 283 pages.

The basic arrangement of both services is not dissimilar, generally following the arrangement of the Internal Revenue Code. A section of the service devoted to a particular section of the Code will generally begin with an editorial discussion. Following will be reprints of the Code section and the related section of the Commissioner's Regulations, after which there will be digests (short summaries) of rulings and court decisions involving the particular section, and frequently cross-references to other parts of the service containing related material.

Both services follow substantially the same practice in reporting court decisions. All Federal court decisions relating to taxes, with the exception of the decisions of the Tax Court of the United States, are printed in full. Both services reprint these decisions in bound volumes, sold separately, the bound volumes of Commerce Clearing House

MARK MARCOSSON, C.P.A., received his certificate in 1938. He has been associated with a New York firm of Certified Public Accountants since 1935, becoming the firm's tax partner in 1943. His article was awarded first prize in the prize essay contest recently conducted by the Society.

being known as "United States Tax Cases" and those of Prentice-Hall as "American Federal Tax Reports". These decisions include those of the United States Supreme Court, the Court of Claims, the various Circuit Courts of Appeals and the Court of Appeals for the District of Columbia, and of the District Courts when the latter are available for publication.

Each service contains a separate volume consisting of the Internal Revenue Code in its entirety, together with other supplementary statutory material such as provisions of law relating to bankruptcy, repealed statutes, etc.

The two services differ in their treatment of decisions of the Tax Court of the United States. Neither service furnishes the full text of these decisions as part of its regular Federal tax service, though both summarize them regularly.

Commerce Clearing House publishes a separate Tax Court Service which covers the decisions of that Court completely and indexes them most elaborately. Both regular and memorandum decisions are reprinted. The service also includes lists and summaries of the petitions filed with the Tax Court, calendars of hearings and tables showing final disposition of docketed petitions. Practice and procedure before the Tax Court are also fully dealt with.

Prentice-Hall does not publish a comparable Tax Court service, but does publish a Tax Court Memorandum Decisions Service which reprints all memorandum Tax Court decisions, i.e., those which are not published by the Government Printing Office in the official reports. Naturally this Prentice-Hall service is considerably less expensive than the Commerce Clearing House Tax Court Service as the latter is so much larger and more comprehensive.

It should be noted here that regular Tax Court cases (other than memorandum decisions) are published by the Government Printing Office in three forms, viz., (1) advance sheets, each

sheet consisting of one decision, which are mailed to the subscriber as issued; (2) pamphlets, each containing approximately one month's decisions and (3) bound volumes usually issued twice each year.

Another Government publication of great interest in the tax field is the Internal Revenue Bulletin, available from the Government Printing Office on a subscription basis at \$2.50 per year. The Bulletin prints amendments to Treasury Regulations, rulings of the Bureau of Internal Revenue, General Counsel's Memoranda and similar material. It frequently reprints important court decisions and legislative committee reports.

With respect to decisions of courts other than the Tax Court of the United States, treatment by the two services differs only in the feature known as a Citator.

For those not accustomed to dealing with reports of court decisions it should be explained that a Citator is, in effect, a cross-index of decisions. It shows the history of a case and cites other decisions where the case was used as a precedent.

Commerce Clearing House includes a brief Citator in its regular Federal Tax Service, whereas Prentice-Hall publishes a very complete and comprehensive Citator as a separate service. For occasions when an exhaustive analysis of court decisions is required, the Prentice-Hall Citator is an invaluable tool.

While the summary just given of the features of the two services is very brief, it tends to show that there is little to choose between the two, provided the Commerce Clearing House Service is understood to include the Tax Court Service, and the Prentice-Hall to include the Memorandum Tax Court Decisions Service supplemented by the official Tax Court reports. Either service will do a good job for the working accountant, provided he uses it as it is intended to be used.

The key to the proper use of the

services lies in the indices. The editors of both services recognize this, and do their utmost to make the indices sufficiently complete and detailed to give the user the maximum convenience and certainty in making use of the books. There is, however, no substitute for care, persistence and imagination on the part of the researcher.

It is always to be remembered that the compilers of the services are human and that they are not faced with a particular but with a general problem. If, for example, your problem involves "corporations" in a general way it is useless to expect aid from the index merely by seeking under the heading "corporations", because it would be physically impossible for a tax service index to list every reference to "corporations".

It is therefore necessary in the course of research to particularize a problem as far as possible. If your problem involves a bad debt deduction by a corporation you may and should look under "corporations", but do not neglect "bad debts", "deductions" and similar headings.

It is also necessary to remember that an index amounts of necessity to a "digest of digests", an utter simplification, the assigning of a key word to something that may be a conglomerate of many interrelated and rather complex ideas. It follows that a case or ruling or discussion that struck the indexer as being primarily concerned with "losses" may actually involve "business expenses" to a considerable degree. Or you may find relevant material indexed under "securities", "worthless securities", "charge-off" or other headings. It should be standard practice on the part of the user of a tax service to think of as many key words or descriptions as possible which conceivably might apply to the problem in hand and to trace all of them through the indices. It should also be standard practice on the part of the user of a tax service to consult the supplementary indices in *all* cases. Rulings are some-

times changed and decided cases may be on appeal. It is obvious from the sizes of the indices involved that they cannot readily be kept up to date, and both services solve this problem by furnishing additions to the regular indices. These additions are generally keyed to the paragraph numbers of the regular service and the service itself should never be consulted without also consulting the corresponding number in the supplementary index.

Many times in the course of practice a question will arise which does not require true research but only a jogging of the memory or a confirmation of rates, principles or other comparatively simple matters. Use of the regular tax services for such minor matters is inconvenient and every working accountant should possess a set of desk books for this purpose.

These desk books should include either the current Master Tax Guide published annually by Commerce Clearing House, or the current Federal Tax Handbook published annually by Prentice-Hall. These are paper-bound books, small and convenient in size, and both are admirable digests of the principal provisions of Federal tax law. They are profusely cross-indexed to the respective services and many times will furnish excellent jumping-off places to further research in the tax services themselves as well as fulfilling their primary function of answering comparatively simple questions.

There should also be on the desk of every working accountant convenient booklet copies of the Internal Revenue Code and of Regulations 111 (the latest income tax regulations). Handy volumes containing this material are sold by Commerce Clearing House. Copies of Regulations 111 may also be secured from the Government Printing Office.

It should be mentioned here that Commerce Clearing House publishes each year a series of paper-bound books (called Current Law Handbook Series) which are sold both separately and on a subscription basis. This

series always includes the Internal Revenue Code (Income, Estate and Gift Tax provisions only), Regulations 111, and other volumes not all of which concern Federal taxes. A recent publication of interest in this series is a textbook on Procedure and Practice Before The Tax Court of the United States. The Master Tax Guide mentioned above is also one of this series.

While on the subject of desk books, mention should be made of "Your Income Tax" by J. K. Lasser, published annually and sold throughout the country. This book is, of course, designed primarily for the amateur tax man, not the professional. Nevertheless it is an admirable book for the accountant to have on his desk. Its various tables and summaries are most useful and convenient in finding quick and reliable answers to many income tax questions, and accountants may bless its reprinting of the surtax table in type which does not require a powerful magnifying glass to be read.

From what has now been said it becomes possible to formulate what should be contained in a practical tax library for the working accountant. It should contain:

1. Federal Tax Service (Commerce Clearing House or Prentice-Hall)
2. Tax Court Service—CCH
or
Tax Court Memorandum Decisions Service—PH—plus official Tax Court reports
3. American Federal Tax Reports—PH
or
United States Tax Cases—CCH
4. Prior Year Reports of Board of Tax Appeals and Tax Court (to extent not covered above)
5. Cumulative Internal Revenue Bulletins—1922 to date. (These are summaries of the material contained in the Internal Revenue Bulletin and are sold by the Government Printing Office.)

A word should be said about the retention of tax service volumes prior to those for the current year. As to the bulk of these volumes (i.e., all except the one containing new decisions and rulings and the one containing the Internal Revenue Code) there is little use in retaining them. While occasional use may be found for them in tracing repealed statutory provisions and prior laws and regulations, this work may usually be done more readily with other sources, for example, a volume published by Alexander Publishing Co., containing the texts of all the Revenue Acts to 1940, or with Seidman's Legislative History of Revenue Acts. These tax service volumes may therefore safely be discarded or returned to the publishing company.

The "current" volume should be retained. The court decisions which it contains will usually not be available in the form of bound volumes for a considerable time after the close of the year. Afterwards, while the court decisions in the tax service volume will represent a duplication, the loose-leaf volumes will be useful in that the pages may be temporarily removed for easy study and collation while engaged in research and briefing, and for the use of the stenographer in copying.

If the Cumulative Bulletins listed as No. 5 in the library formulation given above are not available, retention of the "current" volume of the tax service is a necessity because this volume contains the rulings of the Internal Revenue Bureau which are not available in any other permanent form. The same considerations as to removal of loose-leaf sheets applies to these rulings as to court decisions.

One of the finest tools that a tax man can have has not so far been mentioned. This is the twelve-volume textbook on the Law of Federal Income Taxation by Jacob Mertens, Jr., published by Callaghan & Co. It has not been mentioned heretofore because it is suitable primarily for the specialist and few accountants will wish to include it in their

tax libraries. In the same class is Randolph Paul's text on Federal Estate and Gift Taxes.

Mertens' Law of Federal Income Taxation differs radically from the tax services in its entire conception. It is designed and arranged as a textbook rather than a compilation. It is written in lecture style and its arrangement is not based on the Internal Revenue Code. It begins with an account of the history of Federal income taxation, proceeds to constitutional considerations and concepts of income, and then goes on to deal with particular subjects in a more logical arrangement than the regular tax services.

Each section of text has elaborate references to cases and rulings, and prior as well as present law is well-covered. It is kept up to date by monthly and quarterly paper-bound supplements, and by annual supplements which are inserted in pockets at the backs of the respective volumes.

Its great value lies in its clear and authoritative text (frequently cited by the courts) and its exhaustive annotations. A minor inconvenience encountered by the accountant in using it is that decisions are cited only by reference to the original court reports and it is necessary to secure cross-references to corresponding American Federal Tax Report or United States Tax Case volumes.

Perhaps the best way of illustrating the methods and pitfalls involved in using the various materials is to take an actual case and to show how proper use of the sources will produce the most effective citation of authorities.

This case involved a taxpayer who invested \$1,500, in a one-half interest in a business corporation, and also, from time to time, advanced it funds to the amount of \$12,000., advances which were not matched by the other stockholder. The business was unsuccessful, and in 1940 the corporation made an assignment of all its assets for the benefit of creditors. The assets were sold in 1940, and the net proceeds dis-

tributed pursuant to court order in 1941. The taxpayer received a first and final payment of \$240, in 1941, as a creditor. He received nothing as a stockholder. On his 1941 return the stock investment was deducted as a capital loss and the amount of the advances (less the \$240.) as a bad debt.

On audit, the Revenue Agent disallowed both deductions on the ground that they were worthless before 1941, and our hypothetical researcher finds it necessary to secure proper material to be used in the preparation of a protest. The service used in this illustration is the Prentice-Hall Federal Tax Service, but the methods outlined will apply almost exactly to the Commerce Clearing House Service.

Without any particular research, our man may quickly decide to abandon the stock loss claim as the balance sheets of the company show clearly that the stock was worthless prior to 1941 and, even without such balance sheets, the assignment in 1940 and the small recovery in 1941 would strongly negative any possibility of value for the stock at the end of 1940. Besides, the bad debt alone happens to be sufficient to offset the proposed deficiency.

The first step, of course, is to get the controlling section of the statute. Examining the index he finds that "Bad Debts" is listed in a small major index, with fuller and more particular listings following. The paragraph numbers listed for "Deductions for Bad Debts" are #13,800 to #13,950, and he examines them. At #13,802, he finds the text of the law and at #13,803, the text of the applicable article of Regulations 111. From these it appears that a debt which becomes worthless during the taxable year *shall* be deducted and that a debt which becomes partially worthless during the taxable year and is also charged off *may* be deducted. It further appears from the notations contained in the service that these provisions apply to the taxable year 1941, having been enacted by the Revenue Act of 1943 and made to apply re-

troactively to taxable years beginning after December 31, 1938.

Since it is obvious from the reason assigned by the Revenue Agent for disallowance that the crux of the question is the time or year for proper deduction, our tax man runs down the index to see if any listings refer to this aspect of the question. Under "time for deducting" there are references to Paragraph #13,802, which is the Code section already consulted, and to #54,102. Referring to #54,102, he finds that it contains many notations of cases under the law prior to the Revenue Act of 1942, which allowed the deduction of debts *ascertained* to be worthless, rather than those which actually became worthless. A quick examination of these cases discloses none that seem likely to tend to prove the proposition that a \$12,000. debt which was worth \$240 on January 1, 1941, could not have been worthless in 1940. He therefore returns to the "Bad Debt" section of the index and once more consults the sub-headings there listed. The first such heading which seems to strike a responsive chord is "Burden of proof" and our researcher consults the paragraphs listed, viz., #13,851 *et seq.*, thereupon finding enough material to keep him busy for a long, long time. It is at this precise point that instinct, imagination, persistence, experience, and a sort of sixth sense must come to the aid of the researcher. He is confronted with a huge mass of citations, with but the briefest notations as to their contents. In the absence of a nose for cases he must, and we say *must*, examine every one of these cases. However it is good practice to try to sniff out the likeliest ones, which our mythical tax man proceeds to do.

Under paragraph #13,875A he finds a section of the service devoted to editorial material and cases relating to deposits in closed banks. "Aha!", he thinks, "this is just like my case. The depositor in a closed bank knows he is going to take a licking, but rarely knows how much of a licking until the

bank's affairs are completely wound up. Let us see if we can here find a case which says just that." He examines the section with care and finds it says, but obstinately, nothing of the kind. It goes into great detail about how a deduction for partial worthlessness may be computed in such cases but carefully avoids any reference to complete worthlessness. Moving backwards, he finds at paragraph #13,867 a large list of cases and, still moving backwards, he comes to Simon and Simon, Memo Tax Court Decision, April 28, 1943, the notation to which reads "value at beginning of year not proven". Hoping to learn from the misfortunes of others, our researcher consults this case. It proves to be completely different. Still moving backwards, he comes to the case of A. I. W. Cittadini, Memo Tax Court Decision, February 15, 1943, which bears the intriguing triple negative notation "no evidence debt not worthless prior to taxable year". Here at long last our man reaches paydirt, for the Tax Court says plainly that, "In order to show that the debt became worthless within the taxable year, it must also appear that the debt had at least some value at the beginning of that year as otherwise it would follow that it became worthless some time prior to the taxable year".

Unfortunately, as this is a Memo Decision, the Commissioner of Internal Revenue does not publish Acquiescences and Non-Acquiescences, the former of which would make the decision binding on the Internal Revenue Agent, so that our researcher makes a note of it and proceeds to look further.

Still going backwards, he comes to the section of the service dealing with partial worthlessness and again hits paydirt with a full annotation of Mook Electric Supply Co., 41 B.T.A. 1209, which states unequivocally that a deduction for partial worthlessness is optional with the taxpayer and that if he wishes he can leave it alone and wait for the debt to become entirely worthless. Furthermore a reference to the

table of cases shows that the Commissioner of Internal Revenue acquiesced in this decision, the acquiescence having been published in the Internal Revenue Bulletin for 1940, No. 29, page 10327.

This case seems to settle the matter, the only slight doubt remaining in our researcher's mind being whether or not the conferee will consider that \$240 out of \$12,000 is too small to bother with and is the legal equivalent of worthlessness. Our researcher feels that \$240 is a substantial chunk of money and that anything worth \$240 is not "worthless", but that is only one man's opinion and probably influenced by the cost of groceries. However, since the best practice in the preparation of protests does not permit loading down with citations but prefers the use of a few good ones, he feels well enough satisfied, and it remains only to consult the supplementary indices for something new and interesting on the subject, if any. The key paragraphs are #13,835 in which was found the Moock Electric Co. case, and #13,867, wherein was found the Cittadini decision, as well as #13,802, the Code section paragraph. A cursory examination of the supplementary indices reveals nothing startling and our researcher proceeds to draw his protest with reliance on Moock and Cittadini. (In actual practice it also contained a quotation from Mertens.) The conferee in due course proves to be amenable to reason and appreciates the force of the protest's argument, but, alas and alack! he finds that for some unfathomable reason he cannot secure approval of a clean reversal of the Revenue Agent's report. The conferee suggests an appeal to the Technical Staff.

This being a case where no dispute as to the facts exist or is likely to develop, our tax man sees no harm in appealing to the Technical Staff and that is what he does. But it will now be necessary to strengthen the argument a bit. Back he goes to the services for something a little stronger than Moock and Cit-

tadini, if possible. And since he wants something recent by preference, it is to the supplementary indices that he goes. This time the examination is not cursory but exhaustive.

Dreadfully he runs down case after case. And let it be said that he does *not* merely consult the digest of Tax Court cases contained in the services but reads the complete decisions. For example, he finds listed in the supplementary index "Deductibility of bad debt determined—#74,014". Examination of Service Paragraph #74,014 shows that it is the case of Atlantic Coast Line Railroad Company (4 T.C. No. 16), and the summary of the case contains the following illuminating statement, "Deductibility of stock loss and bad debt determined", the case principally concerning the proper method of accruing the Federal Capital Stock Tax. But a reading of the case itself shows that it is exactly what has been sought. The Atlantic Coast Line Railroad owned one-half the stock of another company and advanced it money from time to time. The company went bankrupt after many loss years and Atlantic received back \$1500 on a \$13,000 debt and nothing on its capital stock investment. The Court held that the stock loss was not deductible as it had occurred prior to the taxable year but that the bad debt deduction was correct, reiterating that, "a debt worthless in part need not be deducted at the creditor's peril" and citing Moock Electric Co., *supra*. He further finds by reference to the Internal Revenue Bulletin (1944-24) that the Commissioner of Internal Revenue acquiesced in this decision.

Thus armed, he goes to the Technical Staff which promptly reverses the Revenue Agent, feeling, no doubt, that it has to do so once in a while and this looks like a pretty good place to do it. And the client for whom this excellent result has been achieved takes it very calmly, having known all along that his bad debt was a perfectly legitimate deduction and how could the Internal

Revenue Bureau possibly disallow it!

In conclusion, it should be remembered that this discussion of tax literature has been a brief one and by no means exhaustive. No reference has been made to textbook material other than Mertens and Paul, although there is a substantial amount of it containing much of value. Many of the various law reviews provide useful tax material and, in fact, the first law review devoted exclusively to taxation has just been

published. Commerce Clearing House publishes a monthly magazine, "Taxes", with which every accountant should be acquainted.

A mechanic cannot do his best work with poor implements, and the accountant who does tax work must see that he equips himself with the proper tools for his job and knows how to use them. Nothing less will do justice to the client or the profession.



Two Tax Systems

By GEORGE LIEBERMAN

THE "fortunes of war" have transformed many civilians to soldiers, and have sent them to far-off lands to work, fight, and to study foreign ways and customs. The author, a civilian-soldier, has spent a short time in England, and has devoted some of it to making a superficial examination of the British Income and Excess Profits Taxes, and comparing them with the taxes in effect in his own country. Here are his findings:

History:

The first trace of a tax on income in England is found in the law of 1692, which levies a tax of "four shillings in the pound according to the true yearly value of any estate in goods, wares, merchandise or other chattels, or personal estate whatsoever within this realm". As early as 1799, William Pitt, the younger, introduced a tax law which required the taxpayer to report his income from all sources, and which also provided for a graduated tax rate. In 1803, an income tax act was enacted which introduced the principle of tax collection at the source and which divided sources of income into five

schedules. (To this day, British taxpayers report income on five schedules: Schedule A—Property income (Rents and rental value); Schedule B—Farming profits; Schedule C—Income from interest, annuities, etc.; Schedule D—Business profits; and Schedule E—Salaries.) Shortly after 1803, the income tax was abandoned, and it was not revived again until 1842. By 1918, the income tax in England was based on a conglomeration of laws passed between 1842 and that date; consequently a new and modernized tax law was passed in 1918, which formed the basis for the laws in existence today.

Income tax in the United States, on the other hand, is a comparatively recent innovation. It was first collected during the period 1863-73, and then abandoned. The Revenue Act of 1894 which provided for an income tax was held unconstitutional on the ground that it levied a direct tax without prorating said tax among the states in proportion to population. This situation was remedied by the Sixteenth Amendment to the Constitution, adopted in 1913, which provided that, "The Congress shall have power to lay and collect taxes on income, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration." And so, income earned subsequent to March 1, 1913, has been subject to income tax.

Comparison of Income Tax Laws:

Probably the main difference between the British and American Tax laws is that England does not take capital transactions into consideration. Therefore, profits or losses on the sale of capital assets will not be reported on the income tax return. However, deductions will not be allowed for depletion, nor for depreciation. In the case of depreciation, however, the following exception is made. For

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machinery and plant used in a business, the taxpayer is allowed a deduction for wear and tear, but he must use rates prescribed by the Bureau of Inland Revenue, and he must apply those rates on the depreciated value of the property. If these rates are too low (as evidenced by the sale of such property below its book value) an additional allowance is granted. If the taxpayer does not choose to use this method, he may charge off the entire replacement value of a machine in the year that it is replaced; but if the machine is not replaced, no deduction is allowed.

It is interesting to note that Great Britain tends to exempt more types of transactions from tax and to allow more types of "personal" credits than the United States does. On the other hand, the United States Income Tax law will allow certain "deductions" which in Great Britain are unheard of. These are illustrated as follows:

Tax exempt income in Great Britain would include:

1. Capital profits, and profits on isolated transactions.
2. Gifts.
3. Legacies.
4. Single payments by way of compensation, eg. damages, money received under insurance policies, etc.
5. Betting gains and gains from speculation (unless they occur so frequently as to constitute a business).
6. Mutual profits.
7. Payments or allowances which cannot be converted into money.
8. Wound and disability pensions.
9. Income from scholarships.
10. Interest on the first 500 National Savings Certificates.

In the United States we find that capital transactions, income from casual transactions, and income from gambling are definitely taxable; and other items such as receipts from life insurance policies, annuities, damages, etc. are treated according to the facts of the case.

In the matter of personal allowances, we find that in England an individual gets an allowance of 80 pounds if he is single and 140 pounds if he is married. This may be increased somewhat if the wife has earned income in addition to the husband's income. If, however, an individual's income does not exceed 110 pounds he is totally exempt from tax. There is also an allowance of 50 pounds for children under the age of sixteen, or if in full time attendance at a school or university, or if serving an apprenticeship of not less than two years, and if the child's annual income under such apprenticeship is not more than 13 pounds. An allowance of this nature may be apportioned among several people in proportion to the amount contributed to the support of the child, whereas in the United States the deduction may be taken only by the individual contributing to more than half of the child's support. In Great Britain, there is an allowance of 50 pounds for a housekeeper if the taxpayer is a widower and has a child requiring the services of a housekeeper. There is also an allowance of 50 pounds for each incapacitated dependent, and for a widowed mother-in-law, regardless of whether she be incapacitated or not. And, if a taxpayer should be aged or infirm, and has an adult daughter caring for him, he may deduct an additional allowance of 25 pounds. In the United States "exemptions" for dependents were at one time allowed only if the dependent was under 18 years of age, or if he was mentally or physically incapable of supporting himself. At present these conditions are no longer determining factors. The exemption will be allowed if (1) the taxpayer furnished more than half of the support of the individual claimed as a dependent; (2) the dependent is a close blood relative (or legally adopted child); (3) the dependent had a gross income of less than \$500; (4) the dependent did not file a joint return with his spouse.

In the United States the taxpayer is

allowed deductions for contributions, interest, taxes, casualty losses, unusual medical expense, and miscellaneous expenses. Similar expenses may not be deducted by the British taxpayer, unless, of course, taxes or interest are paid as business expenses, and under certain circumstances, contributions are deductible.

The British taxpayer gets an "earned allowance" of 10% of his earned income, which allowance may not exceed 150 pounds. The American taxpayer at one time had a similar "earned income credit" which was allowable in the computation of normal tax, but such credit is no longer in effect.

To the American observer, it seems that the British are unusually diligent in "plugging" so called loopholes. In the United States, for instance, if a husband and wife each have sufficient income to be subject to surtax, they would file separate returns and pay two taxes at low surtax rates, rather than file a joint return and pay one tax at high surtax rates. British taxpayers, however, are not allowed to do this. If a British husband and wife choose to file separate returns, they must compute the tax as though they were filing a joint return, and then apportion that tax between them in any way they see fit. In their anxiety to "plug loopholes", the British even go so far as to pass retroactive legislation. British taxpayers found that by making bookkeepers and office boys stockholders (under certain circumstances) and by various other types of transactions (such as inter-company sales) that they could reduce their excess profits tax considerably. But, the Finance Act of 1941 (Sec. 35) corrected that situation by stating: "Where the Commissioners are of the opinion that the main purpose for which any transaction or transactions was or were effected (whether before or after the passing of this act) was the avoidance or reduction of liability to excess profits tax, they may, if they think fit, direct that such adjustments shall be made as

respects liability to excess profits tax as they consider appropriate so as to counteract the avoidance or reduction of liability to excess profits tax which would otherwise be effected by the transaction or transactions".

Pay As You Go:

Pay-as-You-Go was introduced to the American taxpayer in 1943, its purpose being to collect taxes on income currently, that is, as it is being earned. As far as the employee is concerned, it means that income tax would be withheld from his pay check. For the employer, it means computation of each employee's tax and keeping of records to show how much was withheld from each employee's pay. In order to avoid long and tedious computations, employers are allowed the option of using tax tables to determine how much tax is to be withheld from each pay check. These tables are quite simple. There is a table for various pay periods, daily, weekly, bi-weekly, semi-monthly, and monthly. By reference to the proper table, as long as one knows the amount of a person's earnings and the number of dependants he has, he can tell at a glance how much tax is to be withheld.

In 1944, a year after the United States put its income tax collections on a current basis, Great Britain put its Pay-as-You-Earn plan into effect. Although the purposes of both systems are similar, the methods of collection are quite different. In the United States the only factors taken into consideration in determining the amount withheld is the individual's salary, the number of dependants he has, and a 10% allowance for estimated deductions. Great Britain tries to take other factors into consideration too. Each employee subject to withholding is given a code number by the Bureau of Inland Revenue which depends on whether said employee is single or married, whether he has any dependants, whether he has any additional income not subject to withholding, and on any

Two Tax Systems

other factors which will affect his tax. An individual who is single, and has no dependants, and no other income would be given a code number of 11. A married person would get a higher code number (meaning his exemptions are higher). If an individual has additional income not subject to withholding, he would be assigned a lower code number; the effect of this being to decrease his exemption, and by so doing, withhold from those wages which are subject to withholding enough tax to apply against his total income. There is a separate table for each of the fifty-two weeks of the year which, for each code number, shows the cumulative amount of tax payable on the cumulative income up to the week in question. The employer merely subtracts the tax already withheld from the tax due, and withholds the difference from the employee's pay. This method tends to determine

the amount to be withheld more accurately than the method in effect in the United States, but it is much more troublesome both to the employer and to the government.

Tax Rates:

In discussing tax rates, it is important to remember that rates cannot be compared. The reason for this is obvious—what is taxable or deductible in one country may not be taxable or deductible in the other, and so long as the base on which the tax rate is applied in one country differs from the other, comparison of the actual rate would be meaningless. The main thing that the observer notices on examining the rates listed below is that the United States graduates its rates more finely, and that surtax in the United States is chargeable on lower incomes than in Great Britain.

NORMAL TAX RATES

United States 1944
3%

Great Britain 1944-45*
6s 6d in the pound (32½%)
on the first 165 pounds
10s in the pound (50%)
on each pound thereafter

SURTAX RATES

United States 1944			Great Britain 1944-45		
Up to	But not over	On all over	Up to	But not over	On all over
\$ 0	\$ 2,000	20%	£ 2,000	£ 2,500	10%
2,000	4,000	22%	2,501	3,000	11¼%
4,000	6,000	26%	3,001	4,000	16¼%
6,000	8,000	30%	4,001	5,000	21¼%
8,000	10,000	34%	5,001	6,000	25%
10,000	12,000	38%	6,001	8,000	28¾%
12,000	14,000	43%	8,001	10,000	35%
14,000	16,000	47%	10,001	15,000	41¼%
16,000	18,000	50%	15,001	20,000	45%
18,000	20,000	53%	Over £20,000		48¾%
20,000	22,000	56%			
22,000	26,000	59%			
26,000	32,000	62%			
32,000	38,000	65%			
38,000	44,000	69%			
44,000	50,000	72%			
50,000	60,000	75%			
60,000	70,000	78%			
70,000	80,000	81%			
80,000	90,000	84%			
90,000	100,000	87%			
100,000	150,000	89%			
150,000	200,000	90%			
	Over \$200,000	91%			

* The British tax year begins on April 6th of a given year, and ends on April 5th of the following year.

Post War Credits:

Both the United States and Great Britain recognized the fact that a system of compulsory savings would be necessary as an aid to the control of inflation in a war-time economy where the supply of money and credit is high, and the supply of consumer goods is low. They therefore increased income taxes by an amount which was to be refundable to the taxpayer at the end of the war. In the United States this increase in tax was effected by increasing rates. In Great Britain, it was effected by decreasing credits and allowances as follows:

	1940 41	1941 42 through 1945 46
Earned Allowance	1/6	1/10
Earned Allowance (maximum) ..	£ 250	£ 150
Personal Allowance (single) ..	100	80
Personal Allowance (married) ..	170	140
Minimum taxable income	121	111

Originally, the Revenue Act of 1942 provided for current credits to an individual against his Victory Tax in lieu of, but not in excess of a specified post-war credit. However, the law was simplified, before it became operative, to provide that the entire credit should become allowable currently.

In Great Britain, the amount of the post-war credit is determined by computing the tax as though there had been no change in allowances, and the difference between said amount and the amount actually paid is credited to a post-office savings account, the maximum annual credit being 65 pounds. The taxpayer will be able to draw against this account at a future date to be set by Parliament.

Corporations:

Corporations in Great Britain are subject to a normal tax of 10 shillings in the pound (50%). There is no surtax on corporations, but under certain circumstances the Bureau of Inland Revenue may declare the income of a company to be the income of its members, and thus collect surtax from the individuals concerned. Where the directors of a corporation are the "own-

ers" of the business, their salaries are not allowed as an expense in computation of taxable income. Business losses for corporations, as well as for individuals, may be carried forward for a period of six years. In the United States, on the other hand, corporations pay a normal and surtax which are graduated (somewhat) but which combined do not exceed 40%. Business losses may be carried back two years, and if not absorbed by the profits of those years may be carried forward two years.

Excess Profits Tax:

The purpose of the excess profits tax is, of course, to prevent war profiteering. In England the tax seems to be applied more rigidly than it is in the United States. In the United States only corporations are subject to excess profits tax, and as a tax saving measure, many corporations were dissolved and reorganized as partnerships. In Great Britain, individuals and partnerships, as well as corporations, are subject to the tax. In the case of individuals, however, professions are exempted. In both countries, the tax provides that income above a pre-war standard, or above a fair return on capital be taxed at a confiscatory rate.

It is well to remember that "income" in the United States is not the same as "income" in Great Britain. Aside from those already mentioned, another important difference in computing "income" under the two tax systems is the method of treating war obsolescence. Subject to certain qualifications, the American taxpayer may amortize "emergency facilities" over a period of five years. British taxpayers, however, may deduct war obsolescence only if the equipment is obsolete on a date to be set by Parliament, or when the equipment is sold. In lieu thereof, the Board of Inland Revenue may, if it sees fit, allow the taxpayer to charge-off a maximum of 10% a year.

In England, the "standard profits", i.e. the amount that business may earn without being subject to excess profits

tax, is determined by one of the following methods:

1. A minimum standard of 1,000 pounds (increased to 2,000 pounds after March 31, 1944). In partnerships, or in corporations where the directors have a controlling interest, this minimum standard may be increased to 1,500 pounds for each working proprietor (not to exceed four), and if it is a large business it may be increased up to 1,000 pounds additional per working director (usually 6% of the amount of capital which exceeds 5,000 pounds per working proprietor). It may also be increased if it can be proved that the proprietor could be earning more money by working for another firm.

These standards have been liberalized recently, and, therefore, after March 31, 1944 there is an increase of 1,000 pounds for firms with one or two working proprietors, 1,500 pounds for three, and 2,000 pounds for four.

2. A standard of profits based, at the option of the taxpayer, on profits for the calendar year 1935 or 1936, or an average of 1935 and 1937, or an average of 1936 and 1937. If the capital invested in the business during the taxable year is higher than during the standard year(s), the standard is increased by 8% of the increase in capital in the case of public corporations, and by 10% in the case of individuals, partnerships, and director controlled corporations. If there has been a decrease, the standard is reduced by 6% of the decrease in capital.
3. An exceptional standard, allowable only to firms in business on or before July 1, 1936, and allowable only by application to the Bureau of Inland Revenue. In no case may it exceed 6% of average capital employed in the

standard period in the case of public corporations, or 8% in the case of individuals, partnerships, and director controlled corporations. It may be increased by a maximum of 4% to provide for depletion. And, for periods subsequent to March 31, 1944, it may be increased an additional 1,000 pounds.

4. A statutory percentage standard of 8% of invested capital for public corporations, or 10% for individuals, partnerships, and director controlled corporations. This method is allowable to corporations which commenced business operations after July 1, 1936. It too may be increased by 1,000 pounds after March 31, 1944.

For purposes of these computations, borrowed capital is included as well as owners' capital. In the United States for similar computations, only 50% of borrowed capital would be included.

The concept similar to "standard profits" is known, in the United States, as the "excess profits credit". It is based either on income—95% of the average profits for the four fiscal or calendar years beginning after December 31, 1935 and before January 1, 1940; or on invested capital—8% of the first \$5,000,000 of invested capital, 6% of the next \$5,000,000 and 5% thereafter. Under the income method, if there has been an addition or reduction in invested capital, the credit is increased by 8% of such increase, or decreased by 6% of the decrease. In addition there is an alternative method of computing the credit based on income for firms that had "increasing income" during the base years. This method would produce a higher credit than an ordinary arithmetic average. Regardless of the method used for the computation of the credit each corporation gets an additional "Specific Exemption" of \$10,000.

Both countries permit unused excess profits credits to be carried back to

previous years. In Great Britain, an unused excess profits credit would be carried back to the first excess profits tax year (1939), and any amount still unapplied would be carried forward to subsequent years. In the United States, unused excess profits credits may only be carried back two years, and any amount still unabsorbed would be carried forward two years.

The United States has a general relief provision (Sec. 722, Internal Revenue Code) which states: "In any case in which the taxpayer established that the tax . . . results in an excessive and discriminatory tax and establishes what would be a fair and just amount representing normal earnings to be used as a constructive average base period net income . . . the tax shall be determined by using such constructive average base period net income. . .". Great Britain has no similar relief provision.

The income subject to tax is taxed, in Great Britain, at the rate of 100% against which there is a post war credit of 20%. (For the year 1946-47 the rate will decline to 60% and there will be no post-war credit.)

In the United States, the income subject to tax is taxed at the rate of 95%, with the limitation that the total normal tax, surtax, and excess profits tax may not exceed 80% of the surtax net income. 10% of the excess profits tax is refundable to the taxpayer after the war, or currently, to the extent of an amount equal to 40% of any indebtedness repaid during the taxable year, but not in excess of the 10% post-war credit.

National Defense Contribution:

Where the excess profits tax payable is low, or is nil, under the British tax law, an alternative tax, known as the National Defense Contribution is levied. It is a tax on income at the rate of 5% for corporations and 4% for individuals. Incomes below 2,000 pounds are completely exempt, and incomes be-

tween 2,000 pounds and 12,000 pounds may be reduced by 1/5 the difference between the income and 12,000 pounds. For purposes of this tax, partners' salaries may be allowed to the extent of 1,500 pounds per partner, or 15% of the income, but the maximum allowable is 15,000 pounds. If this option is taken, the 5% rate would apply, instead of the 4% rate. Taxpayers are required to compute both the Excess Profits Tax and the National Defense Contribution, and to pay whichever is higher.

Conclusion:

From the above discussion, it is quite obvious that a taxpayer, regardless of whether he be American or British, will have to pay a considerable income tax. This is quite natural, insofar as the cost of running a modern government, in both war and peace, amounts to almost astronomical figures; and the greatest share of this cost is paid for by revenues received through income taxation. For the year 1942, for instance, 54% of Great Britain's total revenue of 2,343,000,000 pounds was raised by income and excess profits tax, and in the United States, for the same year, approximately 67% of its total revenue of \$11,863,000,000 was raised by income and excess profits tax. For the following year the percentages rose to 59% in Great Britain, and to 78% in the United States.*

With high taxes, and other government controls in effect, business men are often reluctant to go into business, on the theory that any profits to be made will not justify the risk involved. Consequently, before they will invest their time and money, business men are often asking for guarantees and/or subsidies from the government.

In general, there seems to be an increase in government control of business, as well as an increase in government's share of business profits. This causes one to wonder—where is it leading us? and—how far will it go?

* These percentages were compiled from statistics published in the World Almanac for the United States; and for England, from figures published in the Statistical Appendix to the Inaugural Address of the President of the Institute of Bankers.

Random Thoughts of A Young Accountant

By ELI MASON, C.P.A.

THE essay contest sponsored by the Society tempts the writer not so much for the honor of seeing one's work in print, nor for the award involved, but particularly for the opportunity of expressing some long dormant ideas. Most young accountants nurse peevishness, and it is interesting to observe the similarity in the nature of these complaints. Such "gripes", when divested of their occasionally colorful language, can be converted into well-meaning, constructive suggestions, to which the accounting profession may well take heed.

During previous contests I contemplated submitting entries, but was deterred by a belief that only specialists do so. This observation is not facetiously intended. Readers of THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT and other accounting periodicals know that most of the contributions are submitted by accountants with broad background and experience. It is true that, on occasion, ambitious young accountants will undertake original research and devise works of integrity and high purpose. But these are exceptions, rather than the rule. Young accountants in the past have been preoccupied with matters which, frankly, are more

pressing than the preparation of dissertations and essays.

Dr. Hugh O'Reilly in the August, 1945, issue of the NEW YORK CERTIFIED PUBLIC ACCOUNTANT stated that it was the desire of the Society to bring to the magazine's readers articles by new writers, particularly from among the younger members of the profession. This gracious invitation is now accepted, and I trust that the material which follows measures up to, and in no way abuses, his kind hospitality.

This article deals with reflections on two sets of accounting relationships:

1. The school of accounting and the student; and
2. The accounting employee and his superiors.

Since these subjects are quite broad, it will be possible, in this discussion, to consider only certain phases. However, as various views, critical and otherwise, are set forth, I shall endeavor to suggest steps whereby the shortcomings may be remedied.

The School of Accounting and the Student

As a preface, I should like to pose to the profession the following hypothetical question: "If at one time all practicing accountants were removed to a distant planet and the task of rendering accounting services fell to the students who were to graduate the following day, to what extent would they be equipped to fulfill the functions of the professional accountants?"

Some may say that the question is not a fair one. Why not? Is it not the purpose and intent of a professional school to prepare the student so that he may assume actual responsibilities in the business world?

With those who cry, "Woe be unto us!", on hearing this theoretical question, the writer heartily concurs.

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We all admit that experience is the greatest teacher. Still it should be generally agreed that an intelligent accounting student, on graduation from a school of business, should not be a helpless waif. This situation is too much the case at the present time.

To emphasize this point further, may I cite an actual classroom occurrence which bears out the foregoing contention. During a session in an advanced accounting course, the subject had drifted to the remuneration of junior accountants. The instructor, a practicing Certified Public Accountant (and incidentally a member of the New York State Bar) expressed his views in the following manner: "When I hire a junior accountant fresh out of school, I start him at \$XX (naming a sorry sum) because for the first six months he's a total loss to me."

Wasn't this an admission of his own failure (or that of the curriculum)? Inasmuch as he was aware of the shortcomings which existed, why could not steps be taken to rectify them, at least in part? The professor quoted above is not alone in his views.

Dr. James W. DeVault, Director of Accounting courses at the University of Rochester, in the August, 1945, issue of the *CERTIFIED PUBLIC ACCOUNTANT* stated:

"With good reason, many public accountants are reluctant to employ graduates of our university schools of business administration . . . Many prefer to employ graduates of the arts and science colleges and train them in accounting in their own offices."

The following incident is pertinent to this discussion. A graduate, after several years, returned to his school and met one of his former accounting professors. The latter, inquiring as to his activities, was quite surprised to learn of the success the young man had encountered as an accountant. "Why, from your grades and record in general", he said, "I would never have thought you would do so well."

Cases similar to this have probably occurred frequently. How many poor accounting students have developed into capable practicing accountants? Contrarywise, how many excellent students could not adequately meet the test of the business world? Why?

In a broad sense our schools offer too many courses of an "academic" nature, as compared to so-called "practical" courses. This is an old complaint. I do not advocate that the academic or theory courses be curtailed or abolished. Rather, the number and ratio of required "practical" to "academic" courses should be increased.

What is a "practical" course? In my opinion, such a course must present to the student situations and problems that will actually confront him in the business world. Our present day courses in elementary, intermediary and advanced accounting, for the most part, do not accomplish this. They are textbook courses. True, certain instructors possess the commendable quality of embellishing their discussions with examples from their own business experience. They create genuine interest on the part of the student, while proving that practical applications for the principles exist.

Courses in auditing, cost accounting, and accounting systems usually approach the practical, particularly where the instructor can call on his own experience to supplement the prescribed material. But a new type of course is needed—one that will actually acquaint the prospective student with the rewards and perils of the accounting world. A course is needed that will instill in intelligent and inclined students a desire to pursue the study and practice of the profession, rather than to abandon accountancy as a dull and unimaginative subject.

To my knowledge such a course does not exist in present day curricula.

The course (or courses) should, primarily, define and explain the nature and function of the accountant. To some this may appear foolish because

of its sheer simplicity. They say, "If a student undertakes the study of accounting and is ignorant as to its basic character, then he should not attempt to become an accountant." I disagree.

The field, particularly in our contemporary business world, is dynamic and has many facets. One cannot expect the student to be completely aware of the full responsibilities of the present-day accountant. Furthermore, a basic discussion as to the overall relationship of the profession to the business world, will clinch for many the decision concerning their future in accounting.

In analyzing the functions of the accountant, the roles played in large, medium and small business enterprises should be discussed. What does the accountant (both public and internal) do for a large public utility, a manufacturer of kitchen utensils or a retail drug store? What does he do—and still more important—why does he do it? When, where and why do each of the above businesses require the services of an accountant?

These questions are fully as important as the basic accounting equation and should be considered before, or at the same time as, that fundamental is taught.

The course, besides depicting various types of clients, should also discuss various types of accountants. Here I refer to size and organization, rather than other details. Students are generally unaware of the diversification of the field and the development of various types of accounting firms. They should be informed as to the functions and interests of the different houses. They should further be advised as to the roles played by the personnel in these concerns. What is a junior, semi-senior, senior or supervising accountant? Where and why would a senior in one firm be comparable to a junior in another? What is a tax department? What is a report department? These

are important matters and will prove to be of interest to the student.

In connection with the items just enumerated, certain related topics should be considered. One such item, and of considerable importance, is the conduct of the auditor in the client's office. Heads and partners of many firms would age at an accelerated rate if they were to observe some of their helpers at work. While most accountants possess the tact and discretion requisite to the profession, some might well benefit by lessons in prudence and good taste.

What questions are properly put to the bookkeeper, the office manager or the controller? When does one approach an officer of a company? When should a question be referred to the officer or partner-in-charge? Still other questions arise which, on the surface, may seem minor but actually are quite important. In the absence of a superior, how much authority should one assume? When, if ever, does one address the client's office personnel by their first names? When should an auditor ask the client's office workers to fetch books and records that he may require? The last point, which may appear trivial in passing, brings to mind an instance where a firm was requested never again to send a certain member of the staff. It was his practice virtually to order the bookkeeper to deliver books and files to his desk. She had complained to the office manager, who agreeing with her, contacted the accounting firm. There are accountants who, for unknown reasons, assume a somewhat patronizing air toward the client's personnel.

An auditor should neither conduct himself as a manor lord, nor as an agent from the Federal Bureau of Investigation. He should exercise care where the client is the type who demands exactly seven hours of work per day, when he pays for it. One should not loaf (or appear to loaf) in such a client's office. These are lessons to be taught.

Naturally, set rules to govern the conduct of an accountant at a client's office cannot be established. However, the course should furnish a suitable background to which he may refer when a situation arises, and then handle it with dispatch and discretion.

Woven into the pattern of the course should be a discussion of professional ethics. The consideration of ethics is entered upon in our present-day curriculum, but only as an occasional and supplementary issue. Our courses in auditing bear on ethical matters. However, to my knowledge, no organized well-rounded discussion on the subject exists. Here the high standards which the leaders of the profession have promulgated and developed should be taught. The principles by which our professional societies and organizations operate should be expounded. Students should be familiarized with the functions and workings of the American Institute of Accountants, The New York State Society of Certified Public Accountants, The National Association of Cost Accountants, etc.

An intelligent, well-conceived series on accounting ethics would serve to produce a higher-minded type of accountant and bring added respect and honor from those outside the profession.

There are many other related matters which this new type course might embrace. It would develop and mature by virtue of the curiosity of the students and the sensibilities of the instructors and department heads. A word as to the instructors. It is my belief that such a course should be taught only by men who have had substantial practical experience. Those who have had no experience and who otherwise may make excellent instructors of "text book courses" in accounting could not teach such a course and do it justice.

There is a need for the course; in time it may evolve into several courses. Numerous problems in its presentation may arise—weak spots would have to be eliminated. But the thought and energy which would be directed toward

its inception and development would be ten-fold repaid by more competent accounting students and hence more capable accountants.

The Accounting Employee and His Superiors

It is with no small feeling of trepidation that I enter upon this discussion, for here there are many experts. In the preface, I stated that many young accountants nurse peevishness and that we might benefit by lending an ear. Personal grudges have no place here, but objective recommendations should be considered and encouraged.

May I point out at this time that the views of an individual change with time, experience and advancement. He may disagree with his earlier opinions. However, a genuine benefit is derived in setting down such views, for they are the product of circumstances which will recur with others. The complaint may no longer apply to him, but the improvements effected as a result of his protest will ease the plight of another "young un".

In line with this thought, it is interesting to observe that the lamentations of junior accountants most often relate to the menial tasks which they are required to perform. (No opinion is expressed as to whether the duties of a junior accountant are menial. It is merely noted that junior accountants generally believe them to be menial.)

A junior accountant on ascending to the rank of semi-senior or senior accountant is apt to forget and disregard his old complaints. There may be occasions when the conduct of an "ex-junior" toward his successor seems sadistic to the latter. In such a case, custom and convention are as much to blame, as is the thoughtless superior.

I refer specifically to the practice of assigning detail tasks to the junior accountant with such regularity, consistency and lack of variety as to dull and often discourage an ambitious young man. That the checking, vouching and other detail jobs are important, no one

Random Thoughts of a Young Accountant

can deny. But where a junior accountant manifests capabilities, he should be assigned some measure of the more material and interesting work. This will both ease the junior's plight, and result in more intelligently performed detail work. Not only will the monotony be relieved, but the more responsible work will demonstrate the need and importance of the junior's job. A disinterested junior is of little value.

The practice of assigning long periods of detail checking may be primarily identified with larger accounting firms. This is entirely understandable. There is a mass of detail requisite to an adequate audit of vast corporate enterprises. But where the occasion permits, perhaps during slack periods, a junior should be given the opportunity of performing more consequential work.

I recall a discussion of this subject with a very capable and personable young C.P.A. He had recently resigned from the staff of a firm of public accountants and in explaining his action said, "It took five years before you touched a general ledger." This was neither healthy for the accountant—nor the firm.

In contrast, an instance is brought to mind where a senior accountant took it upon himself to do a worthwhile thing. This accountant, when engaged in an audit with one or more assistants, would very often assign the more important and interesting analysis work to an assistant. On occasion, he also permitted an assistant to prepare the financial statements and report, subject to his supervision. Naturally, he was one of the best-liked accountants on the staff.

A prominent member of the profession in New York once expressed himself, during an informal discussion, as follows: "With a public accountant, likeability is fully as important as ability." This is very true. With time and experience an individual can acquire a polish that will augment a well-defined personality. However, the

nature of present day accounting is such that neither time nor associations necessarily make a person more able. In another section, it was indicated that our work is dynamic, ever-changing. Laws are revised, regulations modified, decisions handed down. One must be acquainted with, and informed on, these matters.

To a large degree, this is done today by means of various services which are available. Their periodic summaries and supplements, if studied, keep one up to date. Certain "newsletters", if studied, likewise help to keep one advised. Not alone is this material desirable so that accountants may be equipped to cope with specific situations, but it also provides a background for general discussions with clients and others. On this, we should all be agreed. However, to be well informed it is necessary for one to study the sources, soon after their publication and issue. To become acquainted with a new regulation or revision weeks or months later does not greatly enhance one's background on current matters.

The question therefore presents itself, "How many accountants *regularly* read the material prepared by the services?" In larger firms, partners, supervisors and specialists in various fields no doubt do so. In a small organization, perhaps where one or two men handle all the work, they may likewise keep themselves informed. However, do the bulk of accountants who spend most of their time in the field, receive and avail themselves of the service material? I think not. On the one hand, they may not have the occasion or opportunity to read the supplements. On the other hand, they may not have the time, since the information may not be sufficiently condensed to lend itself to hasty perusal. On the whole, staff accountants do not study the material which is generally available. To aid in the improvement of this situation the following suggestion is made. Were a regular weekly (or bi-weekly) bulletin prepared by the firm for distribution

among its personnel, it could in concise form present all the pertinent data of the day. The material could be prepared in the light of experiences the firm has encountered, or specific problems that are current and pending. The bulletin might announce new tax laws, changes in regulations and court decisions. It might also deal with modifications in accounting procedure, organization of working papers, etc. If desired, a portion of the bulletin may be devoted to general items of personal interest to the staff. It need not be lengthy, or elaborate in format. It should, however, present in clear, easy-to-read fashion items which the staff members should know.

This recommendation will necessitate some additional work and expense, though the bulletin be simple and brief. Firms may weigh the possible benefits of the idea against the outlays in cost and time. I believe that the advantages to accrue will more than counterbalance the expense. It is possible that some firms do utilize a scheme similar to the one described. If so, it testifies to the worth of the project, and should serve to recommend its extension to other houses.

At this time I should like to affirm the truism that "accountants are people". This, despite the contentions of some, who attribute this or that peculiar characteristic to accountants in general. We, and our friends, know this not to be so. However, what may lead some

misguided individuals to their mistaken notions is the overall conduct of accountants during the so-called "tax-season". Here, the behavior of accountants may furnish the basis for their misunderstanding. Under the pressure of work and shortness of time, queer things may happen.

Several years ago, a young man, in the employ of a medium-sized firm was receiving an assignment from the person in charge. The latter informed him that he was to leave on an out-of-town audit, to last a period of ten days. The young man explained that he could not leave town since he was to be married within one week. On hearing this, the person in charge said, "Mr. X, you should know better than to schedule your wedding during the tax season!"

Conclusion

I have attempted in this work to set forth ideas which I, and perhaps others, have harbored for a period of time. These suggestions have been directed toward the elevation of the present high standing of the profession, and the advancement of conditions revolving about its members. In this I sincerely hope I have succeeded.

If at times, my arguments were not as mellow, or orderly as articles in this magazine regularly are, that is as it should be. For these have merely been the random thoughts of a young accountant.

The Managing Agent's Monthly Report on Building Operations

By ALFRED LISLE CAMPBELL, C.P.A.

THE subject of monthly reports covering the operation of buildings is of major importance to a Real Estate Managing Agent. It is a monthly obligation, similar to that which a bank has to its clients. It is the report to the owner of what has occurred and how his funds have been handled during the period for which the report is rendered. Every Management Agent is desirous of presenting this information in concise form, each month, to his client, an owner of real estate.

The owner is interested in:

- 1st NET CHECK
- 2nd DISBURSEMENTS MADE
- 3rd RENTS UNCOLLECTED

This would seem to call for a simple record of receipts and disbursements but, following the advent of Social Security, Unemployment, and Withholding Taxes, as well as other government restrictions with respect to rehabilitation of apartments (alterations and additions), these simple records are now not adequate enough to meet the unprecedented demand on the Managing Agent for the required information. This information must be obtained from the agent's statement and records, which must be kept in

simple form so that they may be interpreted with ease and be adapted to the records of the owner for the preparation of his financial statements, tax returns, etc.

Obviously, all real estate is not of the same character and, therefore, requires different types of statements. A statement for a hotel property will be quite different from that for either an apartment or an office building. Classification of receipts and disbursements may be entirely different for each type of building.

The original recording of income due the owner is an important first step, and a sound method is: The agent should collect and disburse for each property separately, using a separate bank account for this purpose. The agent can then reconcile his operating statements directly to the bank statement of the depository. The disbursements are kept in individual accounts for each building in a proper disbursement book. Receipts are likewise kept in individual accounts, one for each building. The agent's responsibility is to see that records correctly present the required information to the owner, keeping in mind that he has an agent's fiduciary responsibility.

Some agents believe that one, two or three bank accounts will simplify the procedure with respect to both receipts and disbursements. For example, an agent may wish to use three good banks within easy reach of his office. Assuming that he manages sixty buildings, he will use one bank for each twenty buildings. Under this method, each vendor will be paid one check for supplies purchased for all twenty buildings. Likewise, one check will be drawn for service and maintenance contracts and/or any situation

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in which payments are made monthly for service in connection with that particular group of buildings. This saving of many check entries will reflect further savings in bank reconciliations and the number of supply orders. This not only saves time in expense classification, but reduces the overhead due to decreased cost for checks and stationery, and bookkeeping expense.

However, in my opinion, it would prove more practical to handle the income for each building on a separate ledger sheet. The income could be classified separately with the aid of a few columns because the same bank from which disbursements were made in connection with this group of buildings would control all deposits. One entry per day would represent the total receipts of that day, as accounted for on the duplicate rent coupons.

On this same sheet the closing entries for the monthly statement could also be posted. For instance, receipts less disbursements would show either the check to balance for account of owner, or the credit balance which would constitute a part of bank balance and trial balance at the close of the month.

When the agent's Leasing Department informs the Accounting Department that the lease has been properly closed, the Accounting Department records the period of the lease, the amount due per billing period, the decorating or other charges or allowances, and any special clauses. All this is done from the office copy of the signed lease. The tenant's card contains a digest of the terms of the lease, recorded at the time of the original drawing of the lease from the tenant's application. It is used thereafter as a source of billing, as well as the accounts receivable record. It is also used by the agent as a basis for setting up the agent's earning record of commissions.

The owner, upon receipt of this monthly statement, proceeds to make entries in his books of account. No matter what method of accounting he

uses, such information is simple to record when reported, as follows, in columnar fashion:

1. SPACE OCCUPIED (Suite No.)
2. TENANT (Name)
3. ARREARS (From last report)
4. CURRENT RENT (From billing record)
5. OTHER CHARGES (Details, per symbols)
6. ADJUSTMENTS (Details)
7. RECEIVED (Cash)
8. ARREARS (To next report)
9. REMARKS (If any)

All this should be set forth upon a statement which conforms to standard typewriter spacing, and should be on a single form of uniform size for filing.

Classification of Disbursements. In my opinion, the following ten categories are adequate to cover the analysis of the usual monthly operating charges:

1. ADVERTISING
2. WAGES
3. COMMISSION
4. DECORATING
5. ELECTRICITY
6. FUEL
7. MAINTENANCE AND REPAIRS
8. MANAGEMENT FEE
9. MISCELLANEOUS
10. UNIFORM EXPENSE AND UPKEEP

Below and separately may be shown such items as:

11. REAL ESTATE TAXES
12. WATER
13. FEDERAL AND STATE PAYROLL TAXES
14. INSURANCE
15. MORTGAGE INTEREST
16. BUILDING IMPROVEMENTS

If the owner desires a further analysis of his expenses for decorating, repairs, supplies, insurance, and commissions, the agent may detail them to meet his requirements. Since the owner is regularly sent all receipted vouchers, he may reclassify them in greater

The Managing Agent's Monthly Report on Building Operations

detail as to capital or expense. Further, he may wish to divide both Decorating and Maintenance and Repairs into two further classifications, one in connection with tenant's lease, and the other with respect to building upkeep. The owner may amplify the analysis of Maintenance and Repairs still further by such a distribution as:

1. Plumbing and Gas Repairs
2. Elevator Repairs
3. Refrigerating Plant Repairs
4. Heating Plant Repairs
5. Electrical Repairs

The owner of each property, having copies of all vouchers, may use his own judgment in the classification of expenses.

Thanks to the activity of the Real Estate Board it will be found that the majority of agents now agree as to the preparation of a statement on a single uniform form with respect to receipts. However, with respect to disbursements, the agent, in many cases, does not pay real estate taxes, mortgage interest or insurance and certain other expense bills. In the event that these special items are paid by the agent, they are clearly earmarked on the statements.

Some classify the summary of expenses alphabetically and this covers most requirements and can be used for either the cash or accrual basis, provided proper adjustment entries are made. Others place all payments under

individual classifications, showing a total of such disbursements separately for each class. Some statements of disbursements have as many as forty classifications, others as few as ten.

Many times the owner prepares a budget or a schedule with expenses classified somewhat differently from agents. The agent will in this case amplify or change his disbursement classification to that called for in the budget.

All of the foregoing will furnish the owner with adequate records for either the cash or accrual basis of accounting. Rent and mortgage charges are substantially on an annual basis, and city real estate taxes, other taxes, interest, etc., are disbursed on a semi-annual or annual basis. Even on a cash basis certain extraneous disbursements, such as insurance, legal fees, and mortgage renewal commissions are prorated by him over the period covered.

Within the last few years many certiorari proceedings have been brought before the court, and it is essential that both owner and agent have identical figures based upon standard record-keeping, for each fiscal period.

The foregoing simple and concise report, presented by the Management Agent each month, should furnish all necessary data and information to the owner, and enable him to keep his books of account for all purposes in accordance with generally accepted principles of accounting.

Reading—Permanent and Temporary

By THOMAS W. BYRNES, C.P.A.

THE purposes of this article are to enkindle in young practitioners of public accounting an interest in permanent, that is classical, reading, and also to suggest temporary reading for a reference book-shelf.

To Francis Bacon is attributed the statement: "Reading maketh a full man, Conference a ready man, and Writing an exact man". And the greatest of these, as Charity is denoted when mentioned with Faith and Hope, is Reading. Because, unless well informed through reading and study, one's presence at conference is not greatly desired; and, in order to write exactly and interestingly one must possess, in addition to knowledge of a subject, a vocabulary sufficiently comprehensive and versatile to hold the attention of others; this, too, is acquired through wide reading. The accountant, to warrant public favor, should therefore endeavor to merit that part of his characterization of Cassius in which Caesar says: "He reads much; he is a great observer, and he looks quite through the deeds of men".

In these days when everything worthwhile seems to be sacrificed to speed, courses are offered in accelerated reading. The idea is to teach skimming through a book or treatise to spot the important items, if any, on each page. Such procedure is understandable when the reader's interest is centered on current happenings as revealed in the daily

press or magazine articles; it may also be applied to books of reference. In these, which may be designated as temporary reading, the desire is for information regardless of the mode of expression. If the plan were to be adopted for all types of reading, the thought occurs that its exponents should transfer their attention to the authors to evolve a new writing technique for the production of literature containing merely the thoughts of the writers, tersely stated.

William Walker's advice in the Art of Reading:

"Learn to read slow; all other graces
Will follow in their places"

appeals to one who enjoys reading and rereading the classics to note the skill with which the authors clothe their thoughts. Not only is pleasure obtained from leisurely perusal, but definite benefit also is derived from provocative statements introducing new lines of thought, visualization of conditions and scenes through descriptive word pictures; and last, but far from least, the gradual and painless acquisition of an extensive and elastic vocabulary. While reading, a pad should be available to note unusual words encountered and a small part of the applicable text. Early recourse to a dictionary should then be had while the words and their uses are fresh in mind. Proficiency in the use of the English language is a consummation devoutly to be wished. Public accountants are known to many persons only through their reports, and while it is true that the currently standardized short and long form opinions do not allow much opportunity for individualization, yet there are other survey, system, and special investigation reports, which, if carefully prepared, will reflect the personality of the presenting accountant.

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For the reference book-shelf of partly temporary reading the first thought is that of language. The writer in over thirty years of university contacts has been shocked at the inability of many college students to express themselves in good English. Inquiry has shown lack of attention given to grammar, rhetoric, required reading and writing, and spoken language, in elementary and secondary schools. Therefore, within easy reach there should be a standard Dictionary, a College Grammar, and a Rhetoric, all for constant use; also Roget's Thesaurus, Fowler's Dictionary of Modern English Usage, and a book highly prized by the writer, "The King's English" by H. W. & F. G. Fowler. There are many others but the foregoing will satisfy most ordinary English language requirements.

The public accountant must be informed on matters relating to commerce, finance, taxes, management, and business law. Hence, there should be at hand an outstanding and recent book on each of these subjects, as well as modern treatises on economics and comparative economic systems. For refreshment of accounting theory and its application there is presently obtainable "Contemporary Accounting", an American Institute of Accountants publication with sections dealing with Accounting Principles, Auditing Procedure, Accounting Systems and Other Subjects, Federal Taxation, and Government Relations with Business. The book is a symposium of the views and opinions of thirty-eight authors most of whom are practitioners, and all are prominent in accountancy circles. Supplementing this refresher material there should be readily accessible a copy of each of the latest revisions of the sev-

eral authoritative texts on general and cost accounting, and auditing. The writer has purposely refrained from naming the books referred to in this paragraph—other than "Contemporary Accounting"—as the authors and their works are well known to all public accountants. At this point it may not be amiss to quote Edward Bulwer Lytton who in his Hints on Mental Culture wrote, "In science, read by preference the newest works; in literature, the oldest. The classics are always modern". Technical books and articles are subject to constant change; the classics survive. In addition there should be available one of the recognized tax services, and valuable and timely information may be obtained from the advisory pamphlets issued frequently by various statistical and news letter organizations. To keep abreast of current thinking in the profession, the publications of national and state societies of accountants and also the Accounting Releases of the Securities and Exchange Commission should be read when issued and then filed for convenient reference.

The foregoing is another attempt of the writer to arouse in each certified public accountant the desire to advance his calling. To that end obeisance is made to Francis Bacon for the following: "I hold every man a debtor to his profession; from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto". Reading—permanent and temporary—will aid greatly in the performance of such duty while contributing materially to the practitioner's pleasure and store of knowledge.

PROFESSIONAL COMMENT

By EMANUEL SAXE, C.P.A.

Restoring the Effectiveness of Internal Controls

Following the cessation of hostilities which necessarily imposed many difficulties of practice upon the profession, attention is once more being directed with renewed vigor towards the improvement of many areas that may have suffered from wartime strains and neglect.

For example, a most interesting discussion entitled, "Rehabilitating The Internal Controls", by Donald P. Perry, C.P.A. and a member of the Society, was recently published in the November, 1945, News Bulletin of the Massachusetts Society of C.P.A.'s, Inc.

The first section of this excellent article recapitulates the state of health of internal accounting controls at the end of the war and, as one would suspect, Mr. Perry finds them somewhat debilitated and run down. The virtual impossibility of adequate supervision under wartime pressure as well as the decline in availability and quality of clerical assistance; the elimination of physical inventory counts in certain industries to avoid cessation of production of needed war matériel (see S.E.C., Accounting Series Release #30, January 22, 1942); the tendency towards the relaxation of procedures designed to control expenses, provide efficient purchasing, and assure proper utilization of materials and parts, which necessarily accompanies cost-plus-fixed-fee contracts, high taxes and a seller's market; the probable neglect to maintain detailed plant records of acquisitions and retirements, as well as accurate records of depreciation; the abandonment of the usual plans for rotating assignments among employees and providing regular vacations for them; the inability of many firms to procure appropriate mechanical aids for automatic control because of wartime

restrictions; the diversion of personnel to many special assignments arising from the plethora of wartime regulations;—all these things have had the effect of preventing the internal accounting controls from functioning effectively during the war period.

The public accountant's function of reviewing a client's system of internal check has also suffered similar retardation. As is well known to all practitioners, the author points out that the shortage of trained personnel, the pressure of special engagements, and the rapidly shifting operations and organizations of clients have undoubtedly interfered with professional progress in this direction. Moreover, during the war, the usual pre-audit (interim) examination of the adequacy of the system of internal accounting control has often had to be postponed until the year-end when it generally was too late to have an effect upon the program of audit used on the engagement. There has also been very little opportunity provided to appraise, revise and improve the methods and programs used for reviewing the effectiveness of clients' routines.

Such is the situation that confronted practitioners as the war period came to an end and that prompted Mr. Perry to suggest the timeliness of a remedial program for the situation.

First of all, he says, business morale must be toned up by instilling an attitude of respect for strict adherence to internal controls throughout the entire organization. Deviations from prescribed routines must always be the exception to the rule. Adequate staffs and procedures must be organized to provide current proof of daily accuracy of work. Each employee must thoroughly understand the importance of his own work in its relationship to the entire system of internal control.

Next, the manual of procedures must be revamped and brought up to date, so that it will provide a co-ordinated and practical plan of operation, specifying with exactitude the duties and responsibilities of all members of the organization. Periodic steps must be taken to insure the integrity of the prescribed procedures both by the internal auditing department and by the public accountants. The latter must necessarily be satisfied that these procedures are being effectively carried out in order to serve as the basis for a certification based upon a test audit. In connection with the review of internal control methods, ample consideration should be given to changes in the type and method of business operations, both accomplished and contemplated. Payroll records and procedures, improved methods of inventory control, revisions of the cost system, controls over sales, accounts receivable, credits and collection, the size of fidelity bonds, etc., should all be given renewed attention.

Internal check must be tightened up to safeguard the integrity of the records and accounts and, through them, the accuracy of the financial statements which, in turn, measure the results of management's policies. Mr. Perry lists the following principles as fundamental to any good system of internal check:

1. Cross-checks arising from division of responsibility and separation of functions.
2. Defined accountability; i.e., the fixing of responsibilities for certain assets in one individual or group.
3. Publicity and attendant fear of discovery.
4. Mechanical devices.
5. Protective measures for safeguarding assets.
6. Rigorous routines as to methods and record keeping.
7. Reports which provide comparisons with standards.

8. Internal auditing procedures.

Public accountants have a dual responsibility in this task of rehabilitating internal controls: first, that of helping to develop the principles of control and applying them to particular business organizations; and, second, that of reviewing and appraising the extent to which reliance may be placed upon existing internal control methods. In the latter connection, the author suggests that such questions as the best manner of providing written staff instructions for the auditor's review of internal check; when, during the course of an audit, this review should best be made; how it should be integrated with the various steps of verification in the audit; how many sample cases should be investigated and to what degree of intensiveness; what are the advantageous possibilities of varying emphasis from year to year in recurring audits;—should all be discussed in order to improve our techniques in this field. His advice is excellent and doubtless will be followed by all alert practitioners.

Renewed Interest In Inventory Problems

The subject of Merchandise Inventory, which is the keystone of the accounting arch since it completes both the balance sheet and the income statement, is once again coming to the forefront in accounting literature. W. B. Atchison, Jr., wrote on "Taking The Physical Inventory" in the December 1, 1945, issue of the N. A. C. A. Bulletin. His article discusses the procedures involved in that task under the following headings: (1) Inventory organization and job duties; (2) Rough floor plans for locating storage areas; (3) Instructions to personnel; and (4) Step-by-step procedure. It provides a helpful and instructive solution to the problem.

"Inventory Pricing" is discussed by Maurice H. Stans, C.P.A., in the February, 1946, issue of the Journal of Accountancy. The author presents a proposed summary statement dealing

with the subject of inventory pricing which is intended "to clarify terminology, restate basic concepts, and suggest criteria which may provide the framework around which more usefully consistent accounting procedures may be developed." The paper is most interesting and should be studied carefully by all practitioners and students.

Accountants Become Airminded

Note is made of the recent appearance of accounting literature dealing with a comparatively new field of commercial endeavor,—commercial aviation.

"Airline Accounting" is the subject of a short article by Charles A. Zarini, appearing in the February 1, 1946, issue of the N. A. C. A. Bulletin. Among the several topics developed in the article, "Revenue Accounting" and "Clearing House for Interline Settlements" are quite interesting.

Joseph M. Cunningham, C.P.A. and member of the Society's Committee on Governmental Accounting, is the author of a treatise on "Airport Accounts", published by the Municipal Finance Officers Association (1945). It is intended to be applicable to airports of all sizes and to both commercial and governmental operations.

Our esteemed contemporary, The Canadian Chartered Accountant, features an article on "Departmental Organization and Accounting in an Airplane Factory", by G. R. Patterson, C. A., in the February, 1946, issue. The topic is broadly outlined under the following headings: (1) Timekeeping, Payroll and Time Study; (2) Purchasing, Stores and Material Control; (3) Planning and Production Control; (4) Outside Production; and (5) General Accounting Department and Relation to Factory Ledger.

Staff Training

Raymond G. Ankers, C.P.A. and member of the Society's Committee on Education, whose views on this subject have always been sought out and respected, has written an important ar-

ticle entitled, "The Question of Staff Training", in the January, 1946, issue of *The Accounting Review*. He discusses the reasons for the need for subsequent staff training for graduates of colleges and schools of business administration. Apparently public accountants are well satisfied with the accounting training of graduates, but not with the results of instruction in auditing. Mr. Ankers lists the following factors as contributing to the apparent inadequacy in this area: (1) The four-hour course in auditing frequently offered by many schools is inadequate. Not enough laboratory work is given to supplement the theoretical instruction. (2) Auditing is often taught as if it were a specialized accounting course. More emphasis is placed on accounting techniques than on auditing procedures and fundamentals. He feels that auditing should be taught only as a terminal course to make it most meaningful. (3) Instruction in auditing is not always integrated with the work in accounting, commercial law, mathematics and English, as it should be.

Mr. Ankers also questions the value of college training in specialized accounting subjects, such as stock brokerage, municipal and real estate accounting, etc., in preference to additional work in auditing. The accounting internship, with its attendant difficulties of successful administration, is discussed at length and the paper is concluded with a presentation of a method of training staff beginners which the author believes to be particularly adaptable to college classroom use and which, presumably, is recommended for the purpose to help solve the basic problem. The article furnishes much stimulating food for thought.

Thanks, American Hotel Association!

At a recent conference held under the auspices of the American Hotel Association, three suggestions were offered to potential investors in hotel

properties in order that they might protect themselves against a repetition of the unfortunate experiences of the 1930's.

One of these was that the finest accountants should be retained for guidance through every step of the planning, financing, building, and management phases of the business. We welcome this very flattering recognition of the value of our professional services to the hotel industry.

The SEC Reviews Its First Decade

The Tenth Annual Report of the Securities and Exchange Commission (79th Congress, 1st Session; House Document No. 158; U. S. Government Printing Office, 1945) contains a detailed account of its work during the first decade of its existence, 1934-1944. Part X thereof entitled, "Activities of the Commission in the Field of Accounting and Auditing" (pp. 197-207) is, of course, of considerable interest to accountants.

During the first ten years of its life, the Commission examined critically more than 80,000 sets of financial statements, reflecting the financial affairs of all kinds and sizes of companies. Through the exercise of its statutory powers the Commission has constantly endeavored to improve these statements. Thus it has adopted a basic accounting regulation governing the form and content of financial statements filed with it; it has promulgated a uniform system of accounts for public utility holding companies and service companies; it has considered many cases in detail, culminating often in formal opinions setting forth its views on the accounting questions involved; and it has issued a number of opinions on accounting matters by its Chief Accountant.

The Commission has also contributed much to the growth of a body of authoritative literature on the subject of accounting principles. Through its accounting rules and regulations, decisions, opinions, and releases on ac-

counting questions, it has been a powerful factor in improving the quality of financial statements filed with it as well as those prepared for other purposes.

Likewise, it has had a very considerable effect upon the development of better auditing practices. In the Interstate Hosiery Mills case, for example, it enunciated the principle that the fundamental and primary responsibility for the accuracy of financial statements rests upon management and the employment of independent public accountants, however reputable, will not relieve management of that responsibility. Its hearings on the McKesson-Robbins case undoubtedly played a great part in the preparation and approval of "Extensions of Auditing Procedure", which contained the recommendation that physical inspection of inventories and confirmation of receivables should henceforth be considered standard auditing procedure. Another outcome of that case was a complete revision of the accountant's certificate (Accounting Series Release No. 21) whereby the certifying accountant was required to make a positive representation as to whether the audit he performed was in conformity with generally accepted auditing standards applicable in the circumstances and, also, to state whether any procedure had been omitted which, in his own judgment, should have been employed. He was also required expressly to describe any and all departures from normal procedures.

Another area in which the Commission has played a leading role has been in the maintenance of high standards of professional conduct on the part of certifying accountants. For example, it has insisted that they be independent of clients whose financial statements they certify, not only as a safeguard against conscious falsification but also to preclude any unconscious bias that might affect the free exercise of their professional judgment. Numerous formal decisions and accounting series releases have been promulgated to make

clear the Commission's views on this subject. It has invoked the disciplinary machinery of professional societies and state agencies and, in a few cases, its own sanctions in order to strengthen the standards of accountants' professional conduct.

Its first ten years have been fruitful, indeed, insofar as accountants are concerned.

Accounting Series Releases Printed

Members of the profession will be glad to learn that the Securities and Exchange Commission has finally prepared a printed compilation of the first fifty-two releases in the Accounting Series, heretofore issued only in mimeographed form. The booklet bears the imprint of the United States Government Printing Office, Washington, 1945, but it would seem that copies thereof might be obtained either at the principal office of the Commission or at any of the several regional offices. The Commission is to be congratulated for having made this series available to practicing accountants in printed form for quick and easy reference.

Crane Case Ruling Reversed

The United States Circuit Court of appeals for the Second Circuit recently reversed the decision of the Tax Court (3 T. C. 585) in the case of *Commissioner of Internal Revenue v. Beulah B. Crane*, decided December 28, 1945, Docket No. 19825. It will be remembered that the Tax Court decision in this case was discussed by Charles Meyer, C.P.A. and attorney, in his article entitled "Income Tax Problems in Realty Transactions" in the December, 1945, issue of the NEW YORK CERTIFIED PUBLIC ACCOUNTANT, at page 657.

The Circuit Court held (with one dissent) that although the recognition of gain might have been avoided had the taxpayer abandoned the property and thus avoided "a sale or other disposition", the taxpayer in the instant case had sought to realize a profit by sale

and should thus be compelled to take the transaction as a whole, including such advantages as may have accrued to her by virtue of prior deductions for depreciation allowances. It would seem, therefore, that the adjusted basis for the determination of gain or loss in this transaction would be the original cost of the property, without reference to the mortgage upon it, reduced by the previously allowable depreciation thereon.

New Regulations Re Taxation of Trust Income

Conforming to the principles set forth in the decision of the Supreme Court of the United States in the case of *Helvering v. Clifford* (309 U. S. 331), the Treasury Department has recently promulgated its new regulations relating to the taxability of trust income. These will be found in the Internal Revenue Bulletin for January 28, 1946 (1946, No. 2), under T. D. 5488.

Correction

In the article "National Conference of Lawyers and Certified Public Accountants" by David F. Maxwell and William Charles, beginning on page 89 of THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT for February, 1946, footnote 7 on page 92 reads in part as follows:

"The American Institute of Accountants is the only national professional organization of certified public accountants. Its history began in the year following the passage of the first certified public accountancy law (New York, 1896) with the formation of The American Association of Public Accountants."

This statement is incorrect. Actually, The American Association of Public Accountants was organized in 1887, nine years before the passage of the first certified public accountancy law. Therefore, the second sentence in the footnote should read:

"Its history began in 1887 with the formation of The American Association of Public Accountants (the first certified public accountancy law was enacted in New York in 1896)."



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